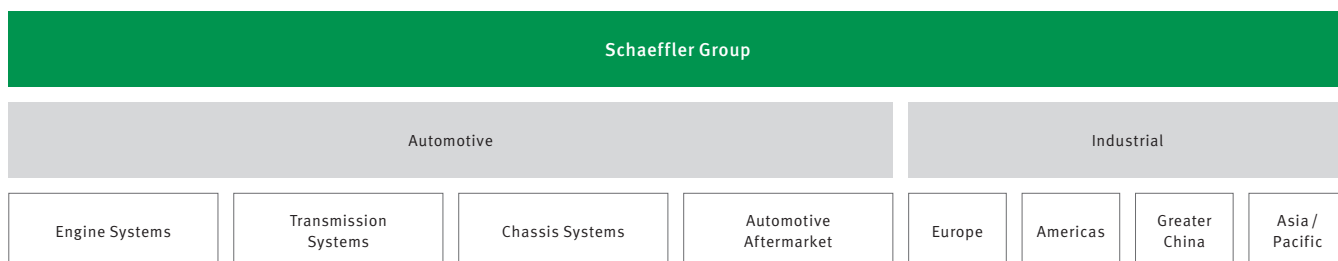


Schaeffler Group divisions and business divisions

since January 01, 2016

No. 003



Simplified presentation for illustration purposes.

Legal group structure

In addition to Schaeffler AG, a publicly listed stock corporation incorporated under German law with its registered office in Herzogenaurach that acts as the group’s lead company, the Schaeffler Group includes 152 (prior year: 153) domestic and foreign subsidiaries as at December 31, 2016; 51 (prior year: 51) entities are domiciled in Germany and 101 (prior year: 102) in other countries.

Schaeffler AG’s share capital is divided into 500 million common bearer shares and 166 million common non-voting bearer shares as at December 31, 2016.

Each common share and each common non-voting share represents an interest in total share capital of EUR 1.00 each. The company’s main shareholder is IHO Verwaltungs GmbH (until September 27, 2016: Schaeffler Verwaltung Zwei GmbH), which

holds approximately 75.1 % of the shares in Schaeffler AG (500 million common shares). 166 million common non-voting bearer shares in Schaeffler AG are widely held. The free float amounted to approximately 24.9 % as at December 31, 2016. IHO Beteiligungs GmbH and IHO Verwaltungs GmbH also hold approximately 46.0 % of the shares in Continental AG.

1.2 Business activities

Divisions

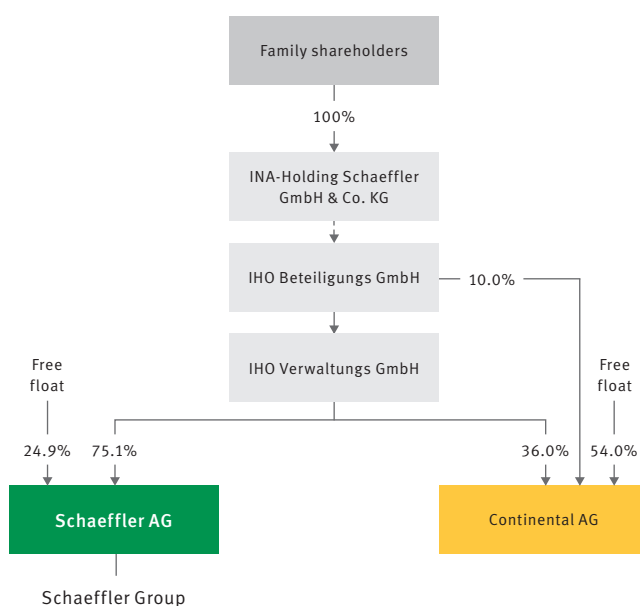
The Schaeffler Group has divided its business activities into the two divisions Automotive and Industrial. The Automotive division is subdivided into four business divisions, which in turn comprise several business units. Since January 01, 2016, the Industrial division is primarily managed based on regions. The regions are divided into eight sectors and the trading business. The realigned management model is part of the program “CORE” initiated by the Board of Managing Directors in 2015.

The Automotive division supplies all major automotive manufacturers worldwide as well as approximately 3,300 automotive suppliers (Tier 1) and Automotive Aftermarket customers. The Automotive division generates approximately 77 % (prior year: 76 %) of the Schaeffler Group’s revenue. The Industrial division supplies precision products to approximately 8,500 customers in various industrial sectors. The Industrial division contributes approximately 23 % (prior year: 24 %) of the Schaeffler Group’s total revenue.

Simplified ownership structure

No. 004

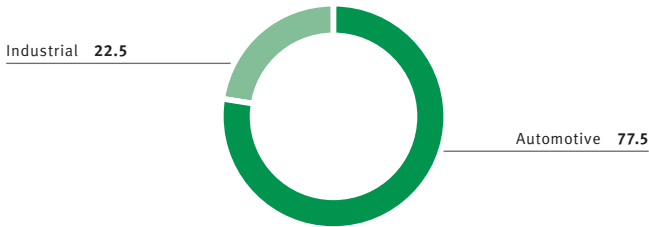
as at December 31, 2016



Schaeffler Group revenue by division

No. 005

in percent



Automotive

As a partner to the automotive sector, the Schaeffler Group leads the field when it comes to developing and manufacturing groundbreaking components and systems for engines, transmissions, and chassis, for both vehicles with drive trains based on the internal combustion engine and hybrid and electric vehicles. The Automotive division business is organized into the business divisions (BD) Engine Systems, Transmission Systems, Chassis Systems, and Automotive Aftermarket.

Market trends for the Automotive division are driven by the global production volumes of passenger cars and light commercial vehicles. The growth of the global vehicle fleet also plays a crucial role in the automotive Aftermarket business. The Automotive division has the objective of achieving lasting growth of approximately 4 % over and above the increase in worldwide automobile production by 2020.

The Automotive division’s main products include clutch systems, transmission components, torsion dampers, valve train systems, camshaft phasing units, electric drives, and bearing solutions in transmissions and chassis. The Schaeffler Group’s precision products and systems are key to helping make engines use less fuel and comply with increasingly strict emission requirements.

At the same time, they also extend engine and transmission life and increase driving comfort and dynamics. Its comprehensive technical expertise for the entire drive train is what sets apart Schaeffler Automotive, one of the leading automotive suppliers worldwide. As future consumption and emissions targets can only be fully met by electrifying the drive train, the Schaeffler Group offers solutions for the entire range of electrification types – from hybrid through to fully electric drive systems.

A comprehensive Aftermarket portfolio rounds out the business of the Automotive division. The product range covers applications in clutch and release systems, engine and transmission applications, and chassis applications. In addition, Schaeffler Automotive Aftermarket offers a comprehensive variety of services such as practice-oriented training courses, advice provided by the Schaeffler repair hotline or the group’s online garage portal, as well as the development of specialized tools.

Industrial

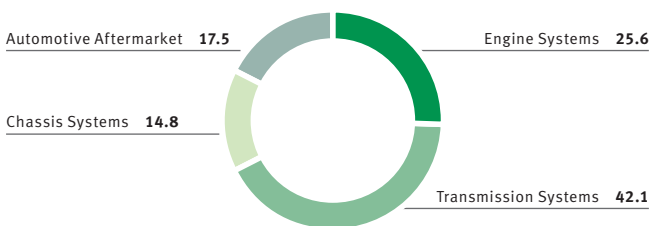
Since January 01, 2016, the Industrial division is primarily managed based on regions due to its wide customer and business structure. On this basis, the Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets. Within the regions, the Industrial business is grouped into eight sectors: (1) wind, (2) raw materials, (3) aerospace, (4) rail, (5) offroad, (6) two wheelers, (7) power transmission, and (8) industrial automation. Sales to distributors (Industrial Distribution) round out the Industrial division’s regional business.

The Industrial division’s product spectrum includes rolling and plain bearings, linear technology, maintenance products, monitoring systems, and direct drive technology. The Industrial division offers a broad portfolio of bearing solutions, ranging from high-speed and high-precision bearings with small diameters to large-size bearings over three meters in diameter. Components are increasingly being integrated in system solutions, some of which are designed as mechatronic systems with data-generating sensors.

Automotive division revenue by business division

No. 006

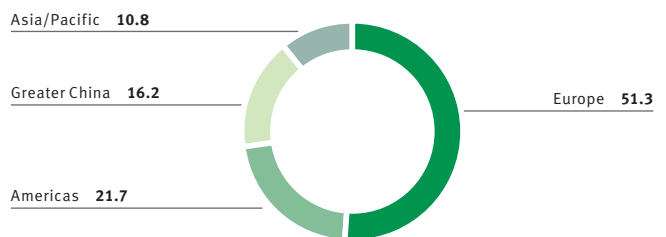
in percent



Automotive division revenue by region

No. 007

in percent by market view



With its rolling bearing, linear technology, and direct drive solutions, the Schaeffler Group offers comprehensive technological and application engineering expertise for complete systems from one source that are precisely matched to one another. The focus is increasingly on smart products and on connecting components. One example is the “Machine Tool 4.0”, whose sensor-equipped components measure and report vibrations, forces and temperatures at all relevant bearing positions.

The majority of rolling bearings is supplied by the “Bearing & Components Technologies” (BCT) unit as an internal supplier. The bearings and related products are used in applications in drive technology, production machinery, and wind turbines, as well as in heavy industries. In the aerospace sector, the Schaeffler Group is a leading manufacturer of high-precision bearings for jet and helicopter engines as well as for space travel applications.

The key indicator for trends in the Industrial division’s relevant market is the global market volume for rolling and plain bearings, for linear technology, and for service products in these areas.

Program “CORE”

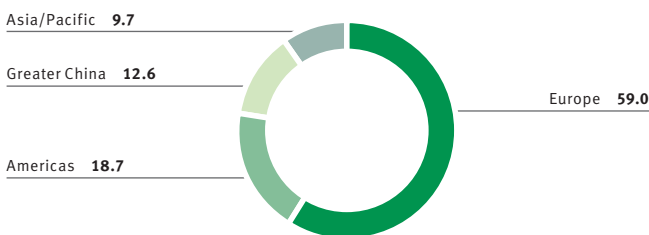
First wave: In 2015, Schaeffler AG’s Board of Managing Directors decided to realign the company’s Industrial division based on the program “CORE”. The Schaeffler Group’s program “CORE” is aimed at strengthening the Industrial division’s core competencies to improve the efficiency and competitive position of the Industrial business for the long term. The program is designed to return the Industrial division to lasting growth and increased profitability.

Its key elements are increased sales growth, enhanced delivery performance and service quality, stronger customer orientation, as well as cost savings and efficiency improvements. The organizational realignment serves as the basis for streamlining workflows and processes and improving their efficiency. It includes streamlining the organizational and management structure of the corporate functions and of the corporate product

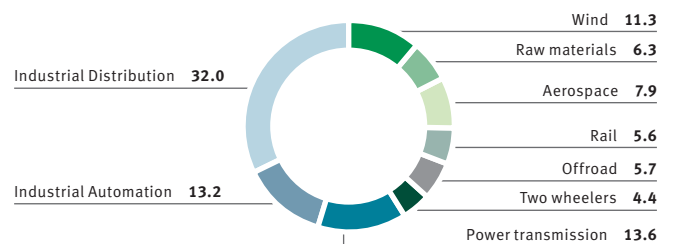
and application development units. The reorganization of the Industrial division also involved taking the necessary steps to implement the new delivery performance and management model “Business is local” and to support its introduction. In connection with this model, the Schaeffler Group has been managing the Industrial business primarily based on regions since January 01, 2016. On this basis, the Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets. A further core component of the program “CORE”, in addition to increasing efficiency and strengthening the division’s competitive position, is stronger customer orientation. The reorganization of the Industrial division included laying down the foundation for a centralized, efficient key account management. As part of the program “CORE”, the company decided in 2015 to reduce the Industrial workforce by up to 500 jobs in a socially acceptable manner, particularly in Germany and Europe. These measures were largely completed by the end of 2016.

Second wave: In light of the continued weak economic market environment and the unsatisfactory current earnings situation of the Industrial division during the year, the Board of Managing Directors of Schaeffler AG decided in November 2016 to step up its measures to revitalize the Industrial division and increase its efficiency. It initiated a second wave of measures which also covers the regions outside of Germany as well as functional areas not directly part of the Industrial division. The measures are designed to improve the results of the entire Industrial division for the long-term by further streamlining its structure and reducing production and administrative costs. The second wave focuses on consolidating plant structures, mainly in the Europe region, and reducing the workforce in Industrial-related administrative departments.

Industrial division revenue by region No. 008
in percent by market view



Industrial division revenue by sector No. 009
in percent



Schaeffler Group functions

No. 010

Schaeffler Group				
CEO Functions	Technology	Operations	Finance	Human Resources
<ul style="list-style-type: none"> – Quality – MOVE – Communications & Marketing – Investor Relations – Legal – Internal Audit – Corporate Development & Strategy – Compliance & Corporate Security – Corporate Real Estate 	<ul style="list-style-type: none"> – Corporate R&D Management – Corporate Innovation – R&D Processes, Methods & Tools – R&D Competence & Services – Intellectual Property Rights – Surface Technology – Information Technology – Coordination Office Digitalization 	<ul style="list-style-type: none"> – Operations Strategy & Processes – Production Technology – Special Machinery – Tool Management & Prototyping – Industrial Engineering – Bearing & Components Technologies – Logistics – Purchasing – MOVE Operations 	<ul style="list-style-type: none"> – Finance Strategy, Processes & Infrastructure – Corporate Accounting – Corporate Controlling – Corporate Treasury – Corporate Taxes – Divisional Controlling Automotive – Divisional Controlling Industrial – Corporate Insurance 	<ul style="list-style-type: none"> – HR Strategy – HR Policies & Standards – Leadership, Recruiting & Talent Management – Schaeffler Academy – HR Systems, Processes & Reporting – Environment, Health & Safety – HR Functions – HR Automotive – HR Industrial

Simplified presentation for illustration purposes.
Structure presented without divisions.

The second wave is expected to reduce the workforce by a total of approximately 500 jobs. These measures are designed to sustainably improve Industrial division earnings by approximately EUR 60 m over the next three years. At the same time, the company is stepping up program “CORE” measures designed to return the Industrial division to a growth path despite the current challenging market conditions.

Both the first wave of the program “CORE” set up in 2015 and the second wave of measures initiated in November 2016 are designed to return the Industrial division to lasting growth and increased profitability with a target EBIT margin of approximately 10 to 11 % in 2018.

Functions

The multi-dimensional structure of the Schaeffler Group includes the functional management level with five functions: (1) CEO functions, (2) Technology, (3) Operations, (4) Finance, and (5) Human Resources.

The functions are essential to securing the Schaeffler Group’s long-term competitiveness and innovative ability. In accordance with the company’s commitment to top quality, outstanding technology and exceptionally innovative spirit, the two functions Technology (particularly Research and Development) and Operations are discussed in more detail below.

Quality

Quality management and quality performance

The Schaeffler Group’s benchmark is consistent top quality and product safety across all applications in order to provide mobility for tomorrow – in the cities just as in long-distance transportation, eco-friendly, and energy efficient. Outstanding quality is a significant feature differentiating the Schaeffler Group from its competition and represents the basis of the group’s future long-term growth.

In order to consistently meet its standard of quality, the Schaeffler Group maintains a comprehensive quality management system. It is based on a central management handbook containing regulations and prescribed processes applicable groupwide. Compliance with and monitoring of these requirements are guaranteed by audits and reviews, and they ensure a uniform global level of quality. In addition, each unit has managers specifically responsible for quality or other quality experts to ensure that the quality management system at all Schaeffler Group locations is effective and is continuously improved. Benchmark for this is the “zero defects principle” in place at all Schaeffler Group locations, which stands for process stabilization and continuous improvement. It facilitates the early detection and elimination of weaknesses. The thorough implementation of the “zero defect principle” guarantees top process reliability and product quality across all stages – from design and manufacturing through to service.

Employees play a key role in meeting the Schaeffler Group's quality standards. The "Fit for Quality" program was initiated several years ago. "Fit for Quality" ensures a systematic approach to achieving top quality with the objective of "zero defects". The program defines policies and rules of conduct for the day-to-day work of all employees of the Schaeffler Group. It provides guidance and orientation to all employees on how to prevent errors to begin with or how to permanently eliminate them.

All of the Schaeffler Group's manufacturing locations are certified under globally recognized quality norms and standards such as ISO 9001:2015 or ISO TS 16949:2009. In August 2016, ISO (International Organization for Standardization) and IATF (International Automotive Task Force) announced that the standard for quality management systems of companies in the automotive sector recognized around the world, ISO TS 16949:2009, will be replaced by IATF 16949. Selected Schaeffler Group locations will be certified under the new IATF 16949 standard in 2017 and all remaining relevant locations in 2018.

The Schaeffler Group's high quality standards are demonstrated by, among other things, numerous awards received from customers. The Schaeffler Group has received a total of 45 quality awards in 2016, such as the "GM 2015 Supplier Quality Excellence Award" and the "Nissan Quality Supplier Award".

Product safety


Being aware of its responsibility to customers, consumers, and employees, the Schaeffler Group has made product safety its top priority. Understanding the requirements in the markets and customers' needs with respect to safe products and reflecting these in the company's processes is key here. The Schaeffler Group has initiated a communication platform, the "Product Safety Network", that includes a large number of companies and is supported by the industry associations VDA, VDMA, and ZVEI. The "Product Safety Network" receives strong support from the Federal Ministry for Economic Affairs and Energy (BMWi). Its members are companies with a broad spectrum of technical and electromechanical products. The goal of the network is to continuously improve their collective activities with respect to product safety issues in the interest of consumers. The focus is primarily on the fields of passenger transport and mechanical engineering and plant construction. A periodic product safety conference is designed to facilitate sharing of information within the network.

Schaeffler hosted the first product safety conference in January 2015. The second product safety day held by the Schaeffler Group in Shanghai, China, in August 2016 demonstrates the long-term nature of this initiative. The issue of product safety is also being reflected in the Schaeffler Group's

organization. Key individuals were systematically identified throughout the organization, trained as product safety officers and authorized, either by the head of Corporate Quality Product Safety or, where needed, by the Board of Managing Directors, to be responsible for decisions related to product safety. As part of this process, the Board of Managing Directors has appointed a CE officer for the CEO functions who is responsible for the conformity assessment of the Schaeffler Group's products for access to the European market. New information regarding product safety obtained by autonomous observation of the market is shared in a global internal network of product safety officers, evaluated with respect to whether action is required, and developed into product improvements as needed.

Technology

The Technology function has made it its goal to safeguard the Schaeffler Group's technological leadership and to thoroughly delight its customers with innovative application- and customer-oriented system solutions from a single source and with its comprehensive development expertise. Four megatrends will influence the business of the Schaeffler Group in the future: Climate change, urbanization, globalization, and digitalization. Based on these four megatrends, research and development activities are aligned with the strategy "Mobility for tomorrow" and its four Focus Areas "eco-friendly drives", "urban mobility", "interurban mobility", and "energy chain".

 See chapter entitled "Group strategy and management" for further detail.

In addition to Corporate R&D Management, Corporate Innovation, R&D Processes, Methodologies & Resources, R&D Expertise & Services, Protection of Industrial Property and Surface and Information Technology, the Technology function also includes the Digitalization Coordination Office. This office is described in more detail following the group's and the divisions' research and development activities.

Schaeffler Group research and development

The Schaeffler Group is actively helping to shape technological progress for "Mobility for tomorrow" with an average of 7,121 R&D staff (prior year: 6,650) at 17 R&D centers (prior year: 17) and additional R&D locations in a total of 24 countries. Its 2,334 patent registrations filed with the German Patent and Trademark Office made the Schaeffler Group the second most innovative company for the second consecutive year in 2015. Over 2,950 inventions reported internally in 2016 (prior year: 2,643) also demonstrate the company's innovative ability. On this basis, the Schaeffler Group expects to once again rank among the most innovative companies in Germany in 2016.

The Schaeffler Group's research and development activities benefit from the company's many years of experience and expertise with product and systems development. Today, mechanics and electronics are increasingly merged into a complete mechatronic system requiring extensive software to manage. The Schaeffler Group is a supplier who understands complex modules and complete system solutions and can deliver them. The company will continue to expand this expertise, but without neglecting the component business. Schaeffler values its component business and its systems business equally.

Another success factor is the cooperation across divisions within the Schaeffler Group. The consistent transfer of knowledge between the Automotive and Industrial divisions generates significant synergies and, consequently, competitive advantages. For instance, coordinating research and development activities, e.g. in Corporate Innovation, and the global research network facilitates the promotion of product and systems innovations across divisions. One example of this is the Sensotect coating system developed by the company. Sensotect can be used to produce multi-functional surfaces that can directly record forces or torques inside components. It has the potential for applications in places where existing sensors cannot be used. For instance, torque measurements in e-bikes and wheel force measurements in passenger car wheel bearings are now possible. This means that operating conditions in the vehicle can be monitored during operation and the results provided to electronic safety systems in real time.

Apart from the cooperation across divisions, the systematic innovation process also forms the basis of the Schaeffler Group's global technological leadership. Internal and external R&D networks are essential for innovation. For many years, the Schaeffler Group, and Corporate Innovation in particular, have been actively participating in research collaborations such as the "Schaeffler Hub for Advanced Research" at the Karlsruhe Institute for Technology, also known as "SHARE at KIT". Schaeffler and the KIT have had a research collaboration designed with a long-term perspective in place since mid-2012. Under the "Company on Campus" model, Schaeffler and the KIT are studying future-oriented issues in the field of "Mobility for tomorrow" and develop relevant solutions together. This program sets new standards of cooperation in developing electric drive systems and their components as well as in the fields of automated mobility and energy storage. A total of approximately 70 individuals are currently doing research and working in publicly funded projects at SHARE at KIT – as research engineers, Ph.D. students, or in connection with student projects and theses.

The company is transferring the successful format of SHARE at KIT to other issues, both nationally and at an international level. For instance, the Schaeffler Group entered a collaboration project

with Friedrich-Alexander University of Erlangen-Nuremberg (FAU) in 2016. Mimicking SHARE at KIT, this collaboration is named SHARE at FAU, and it will also follow the "Company on campus" concept. The focus of the research is on digitalization and on processes in production, in the product, and in services. These areas of focus are summarized under the issues "Digitalization of value streams", "Digital assistance systems", and "Additive manufacturing". In addition to technological innovations, participants will also study issues like the continuing education of employees and legal issues related to digitalization.

In addition, the company is currently preparing for the "Schaeffler Hub for Advanced Research" with Nanyang Technological University in Singapore. This collaboration will concentrate on the requirements of future urban mobility, specifically in Asian metropolises. The focus is on multimodal transport concepts, i.e. on completing a journey using more than one mode of transportation. Topics range from mobility studies of commuter flows and their needs regarding first and last mile to connectivity and use of data by vehicles below the conventional automobile through to the development of new urban mobility concepts.

Research and development in the Automotive division

The megatrends increasing globalization and urbanization require new forms of mobility. A growing scarcity of resources and climate change make reducing energy consumption essential. These challenging developments offer significant opportunities for the Schaeffler Group.

Schaeffler System 48 V concept car

No. 011



As a result, the field of E-mobility represents a key opportunity for the Schaeffler Group's future, and, therefore, a focus of the strategy "Mobility for tomorrow". The Schaeffler Group is a world leader in developing components and systems for the drive train and already offers innovative components and systems for hybrid and electric vehicles today. To facilitate a comprehensive approach, the company established the eMobility Systems

Division several years ago; it consolidates its wide range of activities relating to alternative types of drives across business divisions and national borders. In addition, engineers are working at research institutions such as the SHARE at KIT to share technology between the university and the company and are extensively researching solutions in the field of energy storage, electric drives, and automated mobility.

One example of the outcome of these research and development activities is the “Schaeffler System 48 V” concept car, which was presented in 2016. Starting with an Audi TT, the company developed a drive architecture containing an “electric axle” comprising a 48 V electric motor on the rear axle. In this hybrid concept featuring what is referred to as a P₄ arrangement, the electric axle complements the front-wheel drive internal combustion engine. An additional belt-driven starter generator also operating at 48 V is connected to the engine.

The 48 V on-board electric subsystem uses a lithium-ion battery as its energy store. It is connected via a voltage transformer to the 12 V on-board electric system which powers all the various electrical components in the vehicle, from headlights through to seat adjusters. This electric axle also features torque vectoring, i.e. selectively distributing the drive forces to specific wheels. This improves the agility and safety of the vehicle and the electric axle provides the vehicle with all-wheel drive functionality when combined with the front-wheel drive. The energy generated during braking is fed back into the energy system via the recuperation function in most braking operations which significantly reduces consumption. Furthermore, the Schaeffler electric axle combines the electric motor and the power electronics into one unit, generating important savings in terms of space and weight.

Another component the Schaeffler Group has developed for new vehicle concepts and automotive platforms in the field of E-mobility is the electric wheel hub drive known as the “E-Wheel Drive”. In this highly integrated wheel hub drive, all components required for drive, deceleration, and driving safety – such as the electric motor, power electronics, controller, brake, and cooling system – are contained within the wheel rim. In addition to optimum use of space, highly integrated wheel hub drives also offer significant benefits in terms of maneuverability, driving dynamics, and active safety. Opportunities which make the electric wheel hub drive a valuable addition to Schaeffler’s portfolio of electric drive systems. As part of the test program, a development vehicle based on a Ford Fiesta was created in a collaborative project with Ford.

Based on its expertise regarding drive trains based on the internal combustion engine, the Schaeffler Group demonstrated potential reductions in CO₂ by 25 % using the Gasoline Technology Car II, which was built in co-operation with Continental and Ford,

with “electronic clutch management (ECM)”, including an automated clutch, as an example. Another result of the Schaeffler Group’s research and development activities, the mechatronic active roll control, won the German Innovation Award. It has gone into serial production at several automobile manufacturers.

Research and development in the Industrial division

The digitalization megatrend has resulted in a fourth industrial revolution, “Industry 4.0”, and is having a considerable impact, particularly on production companies. Industry 4.0 stands for intelligent networks connecting product development, production, logistics, customers, and suppliers. Its technological basis are intelligent, digitally linked systems that maximize the possibilities for autonomous production and optimum plant operation: People, machines, systems, logistics, and products communicate and collaborate directly with each other.

The Schaeffler Group is continually expanding its research and development activities in this field and presented the “Predictive Maintenance 4.0” technology in 2016. Predictive Maintenance 4.0 expands conventional maintenance systems and provides the customer with new options for increasing efficiency and reducing the total cost of ownership. The focus is on two digital services: Calculating the remaining service life of rolling bearings and automatically diagnosing rolling bearings.

Predictive Maintenance 4.0: a wind turbine

No. 012



The calculation of the remaining life of rolling bearings involves calculating the nominal remaining useful life for each bearing in the machine or system at time intervals that can be freely defined. The resulting remaining useful life data for every bearing in a machine can be viewed on an internet-capable end device. Comparing the remaining life of the rolling bearings in the machines of a production facility with the next scheduled maintenance makes it possible to manage the level of production in such a way that the bearings will not fail before the scheduled maintenance interval is reached.

Automated rolling bearing diagnosis uses vibration monitoring systems to monitor rolling bearings and to detect emerging damage to bearings and other machine components. The Schaeffler Group has started developing technology that is able to evaluate very high volumes of data from vibration analysis systems intelligently, reliably, and automatically. The vibration data will be automatically digitally processed in the Schaeffler Cloud, which provides adequately high processing power and a large number of possible analyses by linking with additional data from machines and sensors.

Far from being restricted to production plants, this technology is suitable for all applications involving high and fluctuating loads. For instance, data evaluation in passenger trains can facilitate higher average speeds, greater operating performance as well as longer maintenance intervals while also improving operating reliability. Sensor units to be developed specifically for rail applications can be used to measure structure-borne sound, temperatures, and speeds on axlebox bearings. The Schaeffler Group has entered a collaboration project to research this issue with Southwest Jiaotong University (SWJTU). In wind turbines, as well, modular sensor systems in the drive train, designed specifically for low frequencies, will use vibration measurement technology to obtain condition information during operation and process it in real time in the future.

The Industrial division's research and development activities also included, for instance, developing rolling bearings for the new third channel of the Panama Canal. Components from the Schaeffler Group play a key role in the operation of the lock gates. The slow movement poses special challenges for these bearing solutions, as it causes a quasi-static load with very high forces inside the bearings. An important feature of the new Panama Canal is its three reservoirs that are located next to each barrage. The steel guide pulleys for their gates are equipped with Schaeffler bearings that are chromium-plated, making them particularly resistant to corrosion. Different variants of the Schaeffler Group's Durotect coating are used for this application.

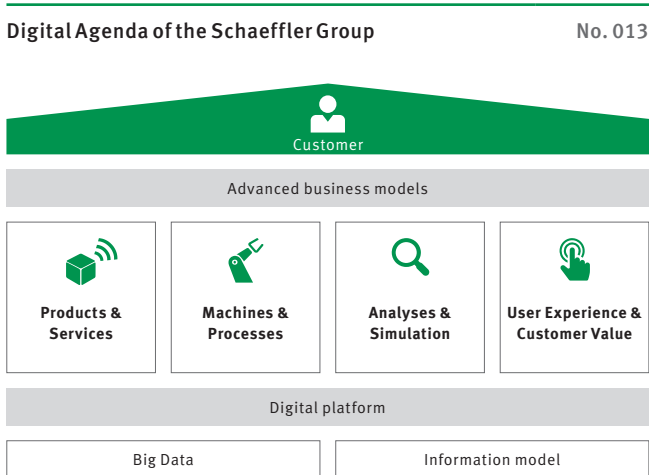
Digitalization and IT

As it increasingly merges the real world and the digital world, the digitalization megatrend poses new challenges, but also offers great opportunities. Digitalization is thus transforming industries and their traditional processes. Digital technologies are becoming a core component of value added in purchasing, manufacturing, logistics, distribution as well as in the human resources and finance functions. Being a progressive, integrated automotive and industrial supplier, the Schaeffler Group considers digitalization one of the key issues of the future. Therefore, it has developed the "Digital Agenda" initiative as part of its "Agenda 4 plus One" excellence program, a component of the group's strategy "Mobility for tomorrow".

The key objective is connecting the physical and the digital world in order to increase the amount of value added. Internally, people, machines, buildings, production locations, logistics etc. are being connected with each other. To generate added value for the company and its customers, existing business models are expanded and new, digital business models are developed and implemented.

To this end, the Schaeffler Group will add sensors, actuators, and controllers including software to its components in order to be able to obtain and process valuable data on machine condition and behavior in the future. The customer does not benefit from gathering data per se, but rather from information generated by combining big data analyses with Schaeffler's thorough sector and application know-how and the resulting synergies. The Schaeffler Group agreed on a strategic partnership in this area with IBM in 2016. IBM will act as the technology provider, consultant, and research and development partner supporting Schaeffler in establishing a digital ecosystem and integrating its mechatronic components, systems and machines into the rapidly expanding world of the "Internet of Things".

The Schaeffler Group has established a centralized project management in 2016 in order to provide groupwide and cross-functional coordination and support for its digitalization projects. This "Program Office Digitalization" manages the coordination, establishment and expansion of the Schaeffler Group's digital activities. The "Digital Agenda", which was refined and put into more concrete terms in 2016, is among the significant initiatives dealing with this issue.



The Digital Agenda centers around the customer. New digital business models are oriented toward the customer’s benefit. Four components reflect the key digital business scenarios the Schaeffler Group is focusing on:

(1) Products & Services: Data generated by sensor systems help expand product functions. Connecting products generates added benefits. Linking products to the Cloud facilitates adding further value and produces new business models.

(2) Machines & Processes: Connected machines and digital assistance for humans are continually advancing production. The Schaeffler Group will utilize this to expand its leadership role in the production and supply chain management environment and to make this know-how available to the market, as well. In addition, business processes are characterized by integration and real-time access to any data generated; as a result, once generated, any data can be used anywhere within the company without changing media. Therefore, the Schaeffler Group has decided to facilitate continuous use of data and to create new, service-oriented processes for this purpose.

(3) Analyses & Simulation: The Schaeffler Group strives to link data from products and processes with each other. Analyses based on the interaction of primary data and the sector- and application-related expertise of Schaeffler’s specialists provide information that adds value. The Schaeffler Group is expanding its own know-how in the field of analytics and is integrating it into existing methodologies and domain knowledge.

(4) User Experience & Customer Value: The interaction between humans and machines is a significant factor for productivity and fun in the digital world. Therefore, the objective is quick recognition and learning as well as goal-oriented interactions.

The four components are being implemented on a digital platform on which all data-based services run. The platform was set up as the first milestone of the collaboration between the Schaeffler Group and IBM. Schaeffler is working closely with IBM to develop solutions for Schaeffler’s internal needs as well as for its customers on a timely basis, using design thinking and agile development methodologies.

The issues of data standards, property rights, and security are defined as the basis of the Digital Agenda. As data will be a core component of value added in the future, the Schaeffler Group is implementing standards, architectures, and methodologies and has joined the Industrial Data Space Association to promote their distribution. Another important item in that regard is safeguarding digital patents for data-based services.

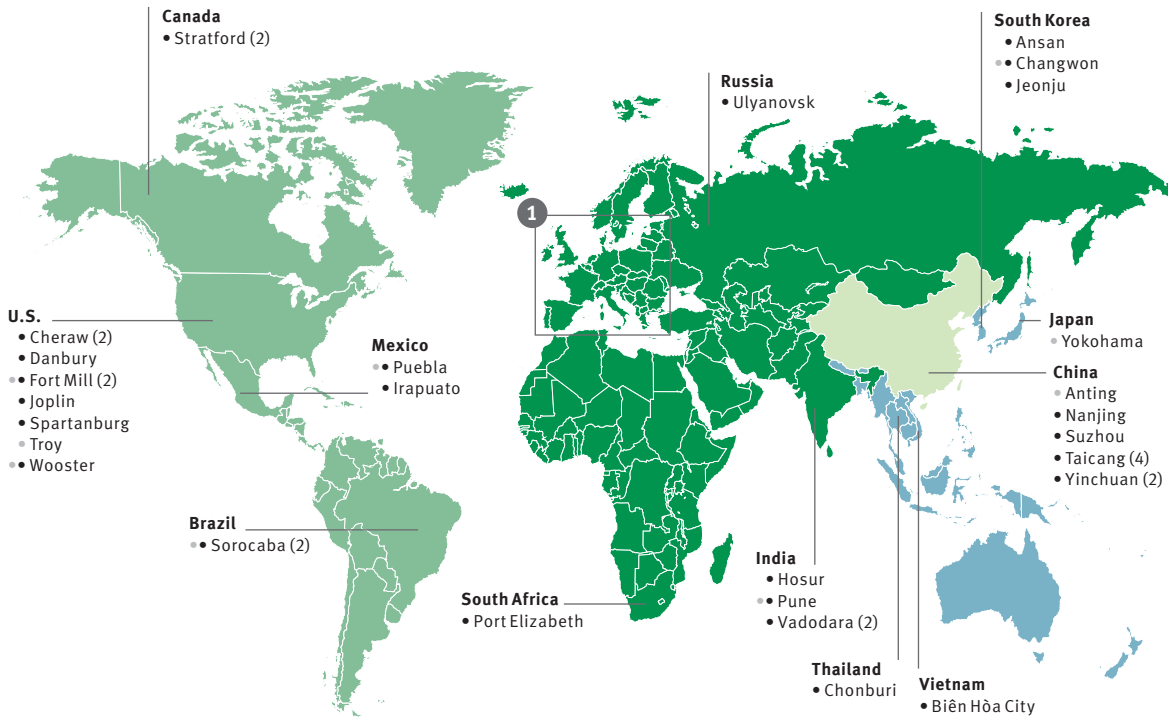
The Schaeffler Group’s employees are fundamental to the implementation of the digital business models. In addition to the existing thorough know-how of its employees, the Schaeffler Group was able to win numerous “digital talents” in 2016 and is aiming to establish a significant talent pool.

To put Schaeffler’s IT in a position to successfully meet the challenges of the future, the company has developed the “IT 2020” initiative as part of its “Agenda 4 plus One” excellence program. Development of the IT strategy under the “IT 2020” initiative was largely completed in 2016, and implementation of the strategy has started. It focusses on rapidly putting in place the organizational and information technology prerequisites for digitalization, renewing and further developing the application and infrastructure landscape, and changing the role of IT within the company from that of an internal service provider to that of a strategic business partner and key component of the digital business models.

Schaeffler Group plants and R&D centers

No. 014

World



1 Europe

(enlarged section)



Regions ¹⁾	Europe	Americas	Greater China	Asia/Pacific
R&D centers	9	5	1	2
Plants	48	14	8	5

¹⁾ Regions reflect the regional structure of the Schaeffler Group.

Operations

Production

As an integrated global automotive and industrial supplier, the Schaeffler Group has a global manufacturing network consisting of 75 production facilities in 23 countries with approximately 60,000 employees worldwide. The plants represent the Schaeffler Group's "backbone". They are managed based on uniform principles. The global network of plants, the manufacturing technologies they utilize, and the high degree of vertical integration represent key factors underlying the Schaeffler Group's worldwide success.

Schaeffler plant in Taicang, China

No. 015



The Schaeffler Group's global manufacturing network makes it possible to maintain consistent high levels of quality and efficiency at all Schaeffler plants. The plants also form the core of the Schaeffler production system, which is part of the group strategy and, as such, represents the basis for achieving outstanding results in the key measures of quality, cost efficiency, and reliability of supply. Among other things, it facilitates very rapid transfer of innovative methods and processes within the entire network of plants. Its standardization accelerates production start-ups and provides flexibility in reacting to regional market fluctuations. As a result, nearly any product can be manufactured at several locations across the globe. Based on close integration with purchasing and distribution, continuous value streams are created between the Schaeffler Group's customers, plants, and suppliers.

The Schaeffler Group increased its production volume by 2.6 % in 2016. The Schaeffler Group strives to always deliver the

highest-possible quality to its customers while maintaining cost efficiency and reliability of supply. It continually improves its production system, with all locations consistently applying the "zero defects principle". Modern quality management techniques and integrated planning across the entire supply chain ensure that all of these requirements are being met. The company has once again realized improvements in quality and efficiency in 2016, resulting in, among other things, a reduction in the number of customer complaints. In addition, the "Integrated Planning" program enabled the company to further improve the reliability of supply to the customer in 2016.

The internal supplier "Bearing & Components Technologies" (BCT) is part of the Operations function, as well. BCT brackets all of the Schaeffler Group's rolling bearings. In 2016, it produced approximately EUR 3.4 bn in output for the Automotive and Industrial divisions.

BCT combines the Schaeffler Group's specialized expertise regarding development and production of rolling bearings. By defining the global standards for rolling bearings within the Schaeffler Group's production system and rolling them out around the world, BCT drives operating excellence in quality, cost, and delivery performance. This streamlines organizational structures, increases transparency and standardization, and generates synergies. As a result, BCT was able to flexibly adjust production capacity in the Industrial division despite a challenging market environment. Among BCT's priorities for 2016 was expanding the production of large-size bearings in its plant in Braşov, Romania, in 2016; the plant became the Schaeffler Group's center of excellence for large-size bearings when these activities were shifted there from Wuppertal in 2016. Further priorities were the "Generation-C deep groove ball bearings" initiative and expanding the global production and development network. The company is continually working to increase the efficiency of machinery and equipment and to harmonize the common production line platform for rolling bearings.

The opportunities offered by digitalization enable the Schaeffler Group to realize significant efficiency gains from, among other things, increasingly interconnected plant and machinery. The expanded use of sensor and actuator technology and connecting them using the internet helps make machines more independent. This facilitates preventative maintenance, helping to minimize the number of unplanned breakdowns. Combined with elements of "Lean Management", this contributes to a significant improvement in the Schaeffler Group's competitive position.

In addition, the Schaeffler Group aims to make the plants attractive for employees while increasing the level of integration of all relevant areas in the value chain. Concepts such as energy efficiency, modularization, and Industry 4.0 play a significant role in this context. The new Schaeffler concept "Factory for

tomorrow” demonstrates solutions in response to this and represents another step toward operating excellence. One core component of the “Factory for tomorrow” concept is the modular design of factories as well as creating ways to make adjustments over the life cycle of a factory at little cost. In total, this will improve profitability, resource efficiency, adaptability, communication across functions and excellence in all direct and indirect production areas of the Schaeffler Group.

A total of 48 plants represent the Schaeffler Group in its Europe region. In addition to manufacturing locations in Germany, France, Italy, and Spain, the group also maintains significant production plants in Central and Eastern Europe. The Schaeffler Group employs approximately 500 production staff at its production plant in Berndorf, Austria. The plant contributed approximately 1.9 % of the Europe region’s production volume and is among the lead plants for the worldwide production of tapered roller bearings. In 2016, the plant took top honors in a MOVE review, an internal model for measuring the degree of maturity in terms of becoming a lean business. The award was primarily won based on the application and implementation of the “lean” principles and the consistent elimination of waste in all areas of the plant. Top quality, reliability of supply, and exceptionally innovative spirit make this plant one of the Schaeffler Group’s leading plants.

Production capacity at the Central and Eastern European production plants is continually being expanded due to increasing demand for Schaeffler products. For instance, the company plans to expand the plant in Debrecen, Hungary. The new production building will be equipped with machines employing state-of-the-art grinding technology for manufacturing rolling bearings. The planned expansion will increase the plant’s production volume by approximately 50 %. The Hungarian plant currently contributes 1.4 % of the Europe region’s production volume. The first parts produced by the new plant are scheduled for delivery in the second half of 2017. The construction of the new plant in the Czech city of Svitavy started in the prior year was completed on schedule in 2016. The two Slovak plants in Skalica and Kysucke are among the most significant plants in Central Europe. These two plants generated 6.2 % and 7.8 % of the Europe region’s production volume. In Kysucke, approximately 4,100 production staff manufacture mostly rolling bearings. The Skalica plant with approximately 4,800 production employees manufactures rolling bearings as well as linear technology products and engine components and systems. The plant in Skalica, which celebrated its 25th anniversary in 2016, also received an award from Toyota Motors Europe for its quality performance in 2016.

The Schaeffler Group operates a total of 14 plants in the Americas region, including eight plants in the U.S. (South Carolina (5), Ohio, Connecticut, and Missouri) and two each in Canada, Mexico, and Brazil. In Sorocaba, Brazil, the Schaeffler Group operates a production location with two plants which employ a total of approximately 4,800 production staff. The location received numerous quality awards in 2016, such as the “Quality Excellence Performance Award” from Toyota do Brasil and the “2015 Supplier Award” from Honda Automóveis do Brasil. In addition, the location placed fourth in the “AutoData Quality and Partnership Ranking 2015”, putting it among the most important suppliers to the automotive sector in Brazil.

In its Greater China region, the group operates 8 plants. The persistently high level of demand for Schaeffler products in China requires a continual expansion of local production capacity. A new manufacturing building was opened at the production location in Nanjing, China, in 2016. Approximately 1,000 production employees manufacture camshaft phasing units, hydraulic tappets, chains, tensioners, and other engine components there. As expansion in Taicang and Nanjing has reached its limits, the Schaeffler Group is planning a new production location in Xiangtan, China. The company intends to gradually expand the new location. Initially, it is constructing a plant for automotive parts and precision bearings approximately 200,000 square meters in size. The plant is scheduled to commence operations in late 2018.

The Schaeffler Group has 5 plants in its Asia/Pacific region. By opening the plant in Chonburi, Thailand, the group has considerably expanded its manufacturing presence in the Asia/Pacific region. The new plant was constructed on a 55,000 square meter property in the immediate vicinity of several large automobile plants. It increases the local production volume and expands the portfolio of Automotive applications, providing the Schaeffler Group’s customers with better access to high-quality products and modern manufacturing technology. At the initial stage, approximately 150 production staff are manufacturing various automotive parts. The production plant was built using a modular system, offering the possibility to add additional lines for Schaeffler products and solutions covering the entire Automotive value chain in subsequent stages.

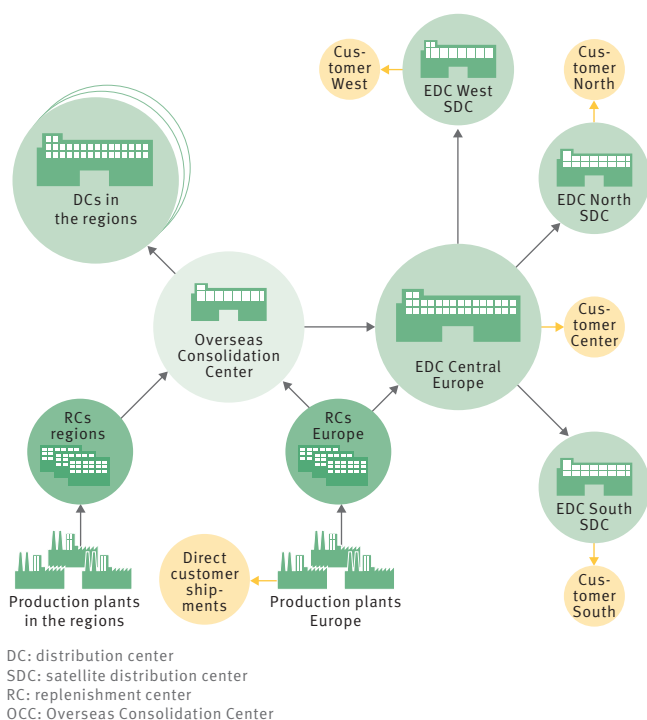
Logistics

The logistics function is responsible for designing, operating, and continually improving the entire supply chain of the Schaeffler Group. The primary goal of this function is to maximize customer satisfaction at minimum cost by way of timely, accurate, and efficient supply to all Schaeffler customers and plants worldwide.

Within the Schaeffler Group, the Corporate and Regional Logistics functions were responsible for managing approximately 250 warehousing locations with more than 350,000 square meters in storage space, and for moving approximately 270,000 tonnes in freight between the most significant destinations in 2016. More than 100 shipping points ensure deliveries to customers. Total logistics activities have increased approximately 1.4 % compared to the prior year. Approximately 62 % of Schaeffler’s logistics activities were concentrated in the Europe region. Approximately 19 %, 13 %, and 6 % of all logistics activities related to the Americas, Greater China, and Asia/Pacific regions, respectively.

European Distribution Centers (EDC)

No. 016



A significant element of the strategic direction of Schaeffler Group logistics is the “European Distribution Center (EDC)” project. This project will create a high-performance logistics network for the Industrial division aimed improving market supply and delivery performance, thus making an important contribution to strengthening the Schaeffler Group’s competitive position. The two warehousing locations “EDC North” (Arlandstad, Sweden) and “EDC South” (Carisio, Italy) have already met their performance requirements with an excellent delivery performance. In addition, the groundbreaking ceremony for the European central distribution center “EDC Central Europe”

(Kitzingen, Germany) represents the achievement of another milestone toward completing the new distribution network for the Industrial Europe business unit.

In 2016, the company also focused on integrating suppliers into the manufacturing process. In cooperation with SupplyOn, it implemented the first stage of a transport order management system (TOMS) for global suppliers at a number of locations. The system represents the basis of a supply chain collaboration platform that will be used to map, manage, and improve processes in supply chain management, supplier risk and performance management, and in transportation management. This collaboration platform is an example of digitalization in Schaeffler’s logistics function and of the increased collaborative planning, management, and monitoring of logistics-related activities designed to add value throughout the entire Schaeffler Group.

Schaeffler UK Ltd. was presented with the 2016 eLogistics award by the AKJ Automotive working group for its project Seamless Supply Information Integration in 2016. To carry out this project, Schaeffler used the transport order management system (TOMS) developed and offered by SupplyOn. With this system, transport orders can be generated, combined and assigned to shipping companies in the supply chain. The pick-up sheet method is used to ensure deliveries are made on time and in the correct quantities. In addition to a considerable reduction in inventory levels of purchased parts, the company was able to significantly improve supplier performance.

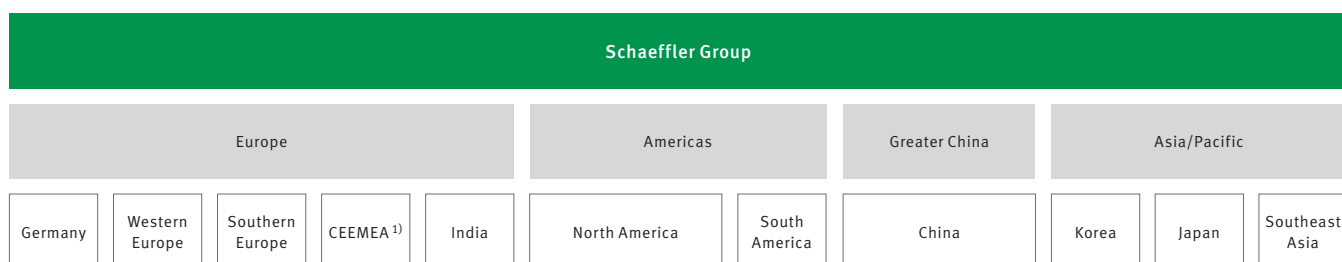
Purchasing

The Schaeffler Group’s purchasing function ensures optimal supply of goods and services to the plants taking into account quality, cost, and reliability of supply. By means including involving suppliers in the process of establishing production, it guarantees external supply even before production starts. By consolidating purchasing volumes, the purchasing function contributes to the continual improvement of the Schaeffler Group’s supplier network. The key objectives of purchasing remain (1) improving the quality provided by suppliers by cooperating extensively with suppliers, (2) securing competitive procurement costs, and (3) optimizing the supply chain to increase the security of supply by utilizing better logistical connections.

Purchasing consists of the corporate purchasing function for production and non-production materials, and project-related purchasing for the Automotive and Industrial divisions. In addition, purchasing is divided into the Europe, Americas, Greater China, and Asia/Pacific regions, which incorporate the purchasing function for the respective plants.

Schaeffler Group regions and subregions

No. 017



¹⁾ CEEMEA – Central and Eastern Europe & Middle East and Africa.

In 2016, the Schaeffler Group reported a slight operational increase in the total volume of purchases compared to the prior year. The volume of production material (raw materials and components) included here rose less than production output. The purchasing volume in general purchasing (primarily intangible assets, property, plant and equipment, tools, supplies, and services) was higher than in the prior year. The Schaeffler Group was able to ensure supply to its plants around the world at all times in 2016.

The Schaeffler Group obtained goods and services from approximately 34,000 suppliers in approximately 80 countries in 2016. The volume of these purchases related primarily to the Europe (63.4 %) and Americas (17.7 %) regions. 11.5 % and 7.4 % related to the Greater China and Asia/Pacific regions, respectively.

The Schaeffler Group uses various raw materials such as steel (flat steel or steel bar), iron and aluminum casting, as well as non-ferrous metals in manufacturing its products. The production materials Schaeffler uses primarily depend, directly or indirectly, on the trend in the price of scrap steel, coking coal, and iron ore, as well as non-ferrous metals. Price changes are normally either passed on indirectly with a time-lag via changes in costs charged by suppliers or via new prices during contract negotiations. The Schaeffler Group has benefitted considerably from falling raw materials prices in 2016.

Continental AG and the Schaeffler Group have been cooperating on purchasing for seven years. Both companies benefit from improvements in cost structures from combining purchasing volumes. By utilizing synergies resulting from numerous cross-regional projects and programs, the Schaeffler Group was able to further improve its cost of materials slightly in 2016.

Regions

The Schaeffler Group's three-dimensional matrix organization divides the company's business not only into divisions and functions, but also groups the company's activities into the four regions Europe, Americas, Greater China, and Asia/Pacific. Each of the Schaeffler Group's four regions is managed by a Regional CEO, who is a member of the Schaeffler Group's Executive Board. This organizational arrangement allows for a better and more flexible management in the regions and facilitates cooperation with regional customers.

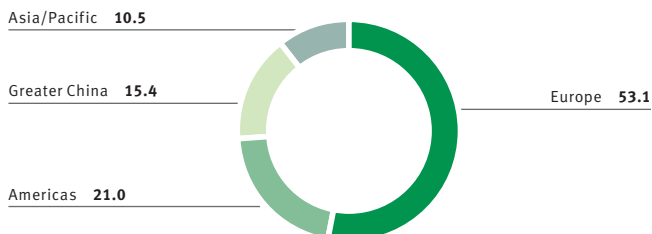
The basis for the Schaeffler Group's economic success lies in its proximity to the customer. With approximately 170 locations worldwide, 75 production facilities, 17 research and development centers, and a tight-knit sales and service network, the Schaeffler Group ensures that its customers always find it close at hand – true to its guiding principle: "We are a global player with a local presence". Cooperation across divisions and countries thus leads to a high degree of flexibility in solving new customer requirements and the opportunity of anticipating emerging trends early on.

In light of this, proactively localizing activities in the markets of the future constitutes one of the key challenges in implementing the strategy "Mobility for tomorrow". It also demands thinking even more deeply in terms of global connections and delegating responsibility away from central headquarters in the future. In addition to better acceptance due to cooperation with local customers and suppliers, the Schaeffler Group's increasing localization results in efficiencies in purchasing and logistics as well as various benefits regarding aspects of sustainability and the environment. The resulting growing regional presence is also reflected in a high degree of localization. The degree of localization describes the relation of a region's total sales to sales volume manufactured in that region.

Schaeffler Group revenue by region

in percent by market view

No. 018



The **Europe region** combines the subregions Germany, Western Europe, Southern Europe, Eastern Europe & Middle East and Africa (CEEMEA), as well as India. The Germany subregion represents the Schaeffler Group's most important sales market. The Europe region contributed 53.1 % (prior year: 53.3 %) of consolidated revenue in 2016. The degree of localization amounted to approximately 96 % (prior year: 96 %) in 2016. The Europe region employed a total of 60,127 employees in 2016, representing 69.4 % of the company's entire workforce. This figure includes the employees of the group's global head office in Herzogenaurach, Germany. The region has 48 plants and 9 R&D centers. Its regional head office is located in Schweinfurt, Germany. In 2016, the company started expanding the plant in Debrecen, Hungary. The expansion will raise the plant's production volume by approximately 50 %. The construction of the new plant in the Czech city of Svitavy started in the prior year was completed in 2016 as scheduled. These steps as well as the expansion of the plants in the Slovak locations of Kysucke and Skalica and in Brasov, Romania, which were finalized in the prior years, demonstrate the key significance of the Europe region to the Schaeffler Group.

The two subregions North America and South America make up the **Americas region**. This region contributed approximately 21.0 % (prior year: 22.0 %) of revenue in 2016. The degree of localization amounted to approximately 71 % (prior year: 71 %) in the Americas region. A total of 12,480 staff were employed at 14 plants and 5 R&D centers as well as at distribution locations in North and South America. The Americas region has its regional head office in Fort Mill, South Carolina, U.S.A. The Schaeffler Group has been manufacturing in this region since 1953.

As China is a strategically important sales market for the Schaeffler Group, China, Taiwan, and Hong Kong are managed as a separate **region Greater China**. The regional head office is located in Anting in metropolitan Shanghai, China. Schaeffler's first subsidiary in this region was founded in Taicang, China, in 1995. The region generated 15.4 % (prior year: 14.4 %) of group revenue in 2016. The degree of localization amounted to approximately 74 % (prior year: 68 %). A total of 11,255 staff were employed in Greater China. 8 plants and 1 R&D center are located in this region. As expansion at the existing locations has reached its limits, the Schaeffler Group is planning a new production location in Xiangtan, China. The plant for automotive parts and precision bearings is scheduled to commence operations in late 2018.

The **Asia/Pacific region** comprises Korea, Japan, and the countries in Southeast Asia. The Schaeffler Group has been represented in this region since 1953. 10.5 % (prior year: 10.3 %) of group revenue was generated by this region in 2016. The degree of localization amounted to approximately 38 % (prior year: 41 %) in 2016. The Asia/Pacific region had 2,800 employees. The regional head office is located in Singapore. The Schaeffler Group operates a total of 5 plants and 2 R&D centers in this region. By opening the plant in Chonburi, Thailand, in 2016, the group has considerably expanded its manufacturing presence in the Asia/Pacific region.